

Michael DeVos  
Executive Director  
MSHDA  
PO Box 30044  
Lansing MI 48909

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Dear Mr. DeVos:

Thank you for the opportunity to comment on the draft QAP. I agree with the premises set out in the introduction regarding revitalizing communities, land use planning, homeless strategies etc. I commend MSHDA in thinking holistically about our communities. The LIHTC is the most effective tool to finance multi-family rental housing. However, the LIHTC is not the most effective tool to finance economic development, neighborhood revitalization, and job growth. My comments are directed at the point system in the QAP and the IRS code itself that unintentionally undermine the goals and objectives described in the introduction to the QAP.

Washtenaw County has just completed a 2-year long Affordable Housing Needs Assessment process. We are meeting with community members to discuss the data and recommendations. These findings and recommendations have important policy implications related to the state QAP.

We mapped the location of existing public housing units, LIHTC units, other subsidized rental units, restricted equity cooperatives and Section 8 voucher users. There was clearly a pattern of low-income housing units concentrated in the City of Ypsilanti, northern Ypsilanti Township, northeast Pittsfield Township and parts of the City of Ann Arbor.

We also mapped out the location of low-mod census tracts, household poverty, and households on public assistance. The census tracts with the highest concentration of poverty and households on public assistance mirrored the low-income housing maps.

We also mapped out the concentration of single-family homes being used as rental housing. All of our indicators are showing that on a county-wide basis, we are concentrating poverty in the same neighborhoods. Many of these neighborhoods have a myriad of other problems including high crime, loss of jobs, crumbling infrastructure etc.

Washtenaw County is a very prosperous county compared to the rest of the state, yet our economic prosperity is not evenly distributed. The City of Ypsilanti has one of the highest tax rates in the State, (higher than Ann Arbor) and they are struggling to maintain government services and infrastructure just like Benton Harbor, Detroit, Hamtramck and other communities.

Our conclusion was:

1. We need to think regionally about our economy because economic prosperity is not confined to municipal boundaries although tax revenue is.
2. Every community needs to provide its fair share of low-income housing.
3. We need to stop adding low-income rental housing to areas that already have a high-concentration of poverty
4. Instead, we need to help stabilize low-income neighborhoods through infrastructure improvements, jobs, and income diversity.
5. NO new multi-family low-income housing should be built in any of the areas that have a high concentration of poverty
6. However, if there is dilapidated market rate housing that is already serving low-income households, we should invest in those properties, and rehab them so that they are not a blight on the neighborhood and still serve low-income households. We should try a mixed-income approach whenever feasible and set aside some of the units as market-rate.
7. Likewise, preservation of existing subsidized low-income housing is still a high priority
8. Although the city of Ann Arbor had a high concentration of poverty, most of the households were students. When we removed students from the picture, it was clear that Ann Arbor could absorb many more affordable housing units.
  - a. Ann Arbor also has the political will to support targeting the lowest income and hardest to serve households with permanent supportive housing.

Some of the difficulties of de-concentrating poverty include:

1. New low-income housing needs to be near bus lines, grocery stores, jobs etc.
  - a. Our suburban townships do not have public transportation.
  - b. Our rural townships do not have jobs.
  - c. Public water and sewer is only available in the urbanized areas
2. Land and properties are cheaper in areas of poverty.

What does all of this have to do with MSHDA and the QAP?

If you think of Washtenaw County as a microcosm of the state, we have the same problems and potential solutions. I understand the perception that LIHTC improve blighted neighborhoods (visually) and provide jobs (short-term construction), however, LIHTC projects do not revitalize and diversify local economies in the long term. While I am sure there was a good reason for each category's point structure, the way to maximize points and create a financially sound project based on the LIHTC Code and this QAP is to construct new low-income housing in neighborhoods that already have concentrations of poverty. For example:

1. Qualified census tract bonus under Tax Code and Census Tract Need under QAP
  - a. One of the mistakes we tend to make is that if the data shows there are a high number of low-income households, then we should build low-income housing in those census tracts.

- i. In Ann Arbor our QCT's are often student census tracts. We have no problem adding LIHTC projects in these neighborhoods but other communities might.
  - ii. In Ypsilanti Township, a QCT is more likely to be a single-family neighborhood that is converting to rental or a neighborhood with many run-down multi-family units. Adding more LIHTC projects will make the problems worse not better.
2. More points for serving the lowest income tenants
3. Tax Abatement points
  - a. Only for new units not acquisition/rehab/preservation
  - b. Our municipalities that are struggling to survive cannot afford to give tax breaks; which is another reason to locate LIHTC units in municipalities that have a stronger tax base.
4. Applications will be judged on the "reasonableness" of the development and operating costs.
  - a. In order to de-concentrate poverty, we have to be willing to pay more for development and operating costs, particularly land, in higher cost areas.
5. No tax credits for acquisition, just rehab and new construction.
  - a. The unintended consequence is that new construction is more profitable and financially feasible
6. 50% reserved for Detroit, Hamtramck, and Highland Park
  - a. Detroit, Hamtramck, and Highland Park absolutely need investments from the state. Detroit's success is critical to Michigan's success. There are many other economic development tools and resources that should be used in Detroit. Detroit's economy will not turn around by utilizing a strategy of permanently housing the lowest-income households.
  - b. Detroit would be better served if its neighbors provided their fair share of low-income housing, shelters and support services. Detroit's lowest income households would be better served if they had access to better schools, health care, jobs etc.
7. 20% of the DHHP units will be permanent supportive housing for persons who are homeless.
  - a. Wow. The City of Ann Arbor spends 90% of its funding on PSH, but again, requiring Detroit, Hamtramck and Highland Park to do this?
8. 10% threshold special needs population.
  - a. I applaud the desire to serve special needs populations and this goal would be great if the projects are being built in moderate and high-income areas, but that is not where the QAP is emphasizing.
  - b. Our experience in Washtenaw County is that non-profits serve this population well because they are mission-driven, sometimes at the expense of good business practices.
    - i. We need for-profit developers to continue working in Michigan because they have access to capital and expertise to develop large-scale projects. Requiring them to provide PSH units that are not part of their mission or expertise is troubling.

- ii. Even our best non-profits struggle to compete with the private sector for large sized properties and land because they do not have the financial capacity and expertise.
  - iii. Even our best non-profits are operating in the red because the revenue from PSH units that do not have project-based vouchers is less than the cost of operating the units.
  - iv. PSH units typically either require the developer to capitalize an operating deficit reserve OR raise private donations annually to cover the operating gap (which only a non-profit can do)
  - v. Of course, for profits could partner with non-profits to utilize the best talents of each – and we encourage that in Washtenaw County. However, that is a BIG leap to make on a state-wide scale.
9. Only a 10% holdback for preservation of existing subsidized housing.
- a. Preservation of existing subsidized housing is critical to prevent those units from contributing to blighted conditions and it is usually cheaper to maintain what we have than build new.
  - b. In many cases, when you build new low-income units next to older ones, people just shift their house to the new units, causing the older units to become even more run down.
  - c. And, in the context of my previous comments. Neighborhoods need to be revitalized with jobs and mixed-incomes. This eventually gentrifies a neighborhood, so a certain percentage of the existing low-income housing needs to be permanently preserved.

In conclusion, MSHDA and the state have a lot of resources to help revitalize Michigan's communities. The LIHTC program is not a catch-all tool that can address every goal that was eloquently laid-out in the introduction to the QAP. MSHDA should use the LIHTC QAP to encourage a fairer distribution of low-income rental and permanent supportive housing throughout the state. Higher income, lower unemployment communities should build new LIHTC projects targeted to the lowest income households, including homeless populations. Struggling communities need different strategies that might not include LIHTC at all – it may mean job creation, homeownership housing, and unrestricted market-rate housing.

Sincerely,

Jennifer Hall  
Housing Program Coordinator  
City of Ann Arbor  
Office of Community Development